

MEMORANDUM

TO: Jean Perwin
FROM: Applicant
DATED: February 21, 2006
RE: *Harris v. CBL*

ISSUES:

- (i) Does Harris own the Blinky copyright or does CBL own it as a work made for hire or the result of a transfer of ownership?
- (ii) Assuming that Harris owns the copyright:
 - (a) Did Harris grant CBL permission, via an implied nonexclusive license, to use Blinky?
 - (b) Is CBL's use of Blinky within the scope of any such implied nonexclusive license?

ANSWER:

I. Harris owns the Blinky Copyright as the Original Author, and Blinky Was Not Made as a Result of a Work Made for Hire or Transfer of Ownership.

Initial ownership of a copyright vests initially "in the author or authors of the work. . . " 17 USCA 201. However, where a work is a "work made for hire" depends upon whether the the work was 1) prepared by an employee within the scope of his or her employment; or 2) a work specially ordered or comissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, . . . if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire." 17 USCA

CBL may attempt to argue that Blinky is a "work made for hire," thereby arguing that it is the proper owner of Blinky. It will attempt to accomplish this under Section 101 of the Copyright Act by proving that the 1) work was prepared by an employee or 2) was specially ordered or commissioned as part of a collective work if the parties agree in a written agreement that the work shall be considered a work for hire.

A. Harris is an Independent Contractor, not an Employee, and Therefore Does Not Satisfy Subsection (1) of Section 101 of the Copyright Act.

Harris can effectively counter CBL's first argument by proving that he was not an employee, but rather, was an independent contractor. Ralph Cabot ("RC") of CBL "invited" Harris to submit a proposed animated cartoon character for a competition. *See* E-mail from Ralph Cabot, dated October 21, 2005. Harris was not employed by CBL, and was not entitled to compensation if his entry did not win. Right on point is *Wilkes v. Monterey Festival, Inc.* ("*Wilkes*"). In *Wilkes*, a graphic artist was invited to "audition" for the design of a graphic character to be used in TV commercials for a festival. When the graphic artist won the competition, he was compensated \$5,000. The court in *Wilkes* held that the graphic artist, whom used his own studio, equipment, controlled when and how he worked, and had discretion over the design, was an independent contractor. Here, Harris was given the "widest possible latitude and design and originality" in designing his character. *See* E-mail from Ralph Cabot, dated October 24, 2005. The only restriction was that Harris must submit the work by November 21, 2005. Thus, just like in *Wilkes*, Harris had wide discretion and control. He was therefore an independent contractor. Therefore, in order to be covered under a "work for hire," the character must be covered by Section 101(2).

B. Harris and CBL's Agreement was Effectuated After the Creation of the Work, and Therefore Does not Satisfy Subsection (2) of Section 101 of the Copyright Act.

CBL will argue that Harris' creation satisfies 101(2) of the Copyright Act (which requires that the parties must expressly agree in a written instrument signed by them that the work shall be considered a work for hire) and therefore is a work for hire. Here, there is a Marketing Services Agreement that states that "[a]ll work performed by Harris in connection with the performance of the Services as [defined in the Agreement] shall be considered a work for hire under copyright law." Marketing Services Agreement, section 1.03. The agreement also provides that all other work and materials prepared by Harris for CBL "shall be considered CBL's property." *Id.* The Agreement, however, provides that the agreement is effective "as of November 15, 2005" and shall continue in effect "up to and including May 15, 2006." *Id.* at section 1.01. The Agreement was signed by Ralph Cabot on December 1, 2005 and by Harris on December 2, 2005.

Harris will therefore have a valid argument that subsection 2 does not apply to him because the language of the statute requires that the writing be executed prior to the creation of the copyrighted material. The reason for this policy is so that the author is protected from false claims of unwritten copyright agreement and to provide definitive evidence of the ownership to insure the property is marketable. *See Wilkes, supra.*

In *Wilkes*, the Court of Appeals held that the graphic artist's work was a work for hire, because even though the work was created *prior to* the agreement re the work for hire, because the writing affirmed a *prior agreement*. The graphic artist responded to an invitation which included that the submissions were "works made for hire," and Wilkes signed the agreement. Therefore, the agreement, though signed after the creation of the author, was valid because it effectuated the parties' intent prior to its creation.

Harris' case is distinguishable from *Wilkes*. First, when Harris submit Blinky, it contained the ©, which as the court said in a footnote in *Wilkes*, is "*evidence of [the author's] intent* regarding ownership of his work when he entered the contest." *Wilkes*, fn.1. Wilkes' submission contained no similar symbol. Harris also registered the work with the U.S. Copyright Officer naming himself as "author" and "copyright claimant." *See* Interview Notes - Steve

Harris, dated February 17, 2006 (NOTE: We should find out from Harris when he registered his work as indicative of his intent). Most importantly and indicative of both parties' intent is where Harris told Ralph on January 11, 2006 that hte needed to talk about the "transfer of my copyright to Blinky to CBL." CBL did not disaffirm or correct Harris' notion that he owned the work and in order for CBL to acquire ownership, some transfer had to occur. Harris' intent to maintain original authorship is much more clear than in *Wilkes*. Second, unlike in *Wilkes*, the contest rules did not explicitly say that the work would be a "work for hire." Here, RC merely said that "we will most likely hire the winner of the competition to perform substantial additional work, on an ongoing basis, in a multimedia marketing campaign that we plan to undertake depending on the product's success." E-mail from RC, dated October 21, 2005. Therefore, there was no *prior agreement*, as there was in *Wilkes*. Especially with the custom being that the graphic artist will later transfer rights to work in return for royalty payments or a lump sum -- which has not happened -- it is clear that the Harris' intent (if not RC's intent) for for Harris to maintain ownership. Thirdly, the agreement was signed on December 1 and December 2, 2005. RC will attempt to argue that the signed agreement was not a *prior* agreement, but rather, when Harris was working, he was working under the terms of the contract. This argument will fail.

Although the agreement says that it will begin on November 15, 2005, a few days before Harris delivered the digital file to CBL on November 18, 2005 (see *Interview Notes*), Harris had done substantial work before that time. Furthermore, it was not signed until December 1 and December 2. This is just the kind of agreement that the *Wilkes* court said was in contravention of the goals of the Copyright Act.

Harris therefore can establish ownership of a copyright in Blinky, and the work is not a work for hire. Because copyright in a work protected vests initially in the author of the work, and the transfer has not been assigned, Harris owns the copyright in Blinky.

II. Though Harris Granted GBL an Implied Nonexclusive License, CBL Exceeded the Scope of the License by Using Blinky Without His Consent After His Agreement Expired.

A. Harris Granted CBL Permission Via an Implied Nonexclusive License to Use Blinky.

Section 204 of the Copyright Act invalidated transfers of copyright ownership made without a writing. Section 101 of the Act, however, excludes nonexclusive licenses from the definition of "transfers of copyright ownership." Accordingly, "a nonexclusive license permits a licensee to use the copyrighted material, but does not transfer ownership." *See Atkins v. Fischer* ("*Atkins*"). An implied nonexclusive license will arise where 1) a person requests the creation of a work, 2) the creator makes the particular work and delivers it, and 3) the creator intends that the requestor copy and distribute the work. *Atkins*.

Here, CBL "invited" Harris to create a work for use in Internet Ads. E-mail from Ralph Cabot, dated October 21, 2005. Harris created Blinky and delivered it before the submission deadline. E-mail from Ralph Cabot, dated October 24, 2005; E-mail from Harris, dated November 18, 2005. Harris may attempt to argue that he did not intend to have CBL copy and distribute the work but rather, expected to lead a full marketing campaign based upon his skills in drafting Blinky. E-mail from Harris to RC, dated November 18, 2005. RC, however, emailed Harris and stated that Blinky was going to "represent the i-Chip and [will be] our central theme of our animated Internet advertisements with which you will be involved." E-mail from RC dated December 1, 2005. Therefore, an implied nonexclusive license arose of Blinky in favor of CBL. It should be noted, however, that the licensor can still bring suit for copyright infringement if the licensee goes beyond the scope of the nonexclusive license.

B. CBL's Use of Blinky is Outside of the Scope of the Power Granted by Harris.

An author, creator, and licensor of a work can still bring a suit for infringement where the licensee goes beyond the scope of the license. The court will use an objective fact-dependent inquiry in determining whether CBL went beyond the scope granted by Harris. The court will look at a number of factors, including 1) amount of consideration and/or licensor's economic investment in the product; 2) the expectations expressed during negotiations and the parties

subsequent conduct; 3) whether the agreement was task-specific or if future involvement by the licensor was assumed; 4) any advertisements indicated that the licensor intended to retain control of the work; and 5) evidence of custom or practice that may serve and clarify the terms. *See Atkins*. The examination focuses on whether the creator's conduct during the creation or delivery indicated that use of the material without the author's involvement or consent was permissible.

Atkins is dispositive on this issue. In *Atkins*, the author wrote a note on delivery of the sketches that she was "glad we're finally going to design a look for Red Barn Beer." The existence of two stages of the agreement suggests that the parties contemplated that the designs would be used in the second state to create another type of production. *Atkins*' acceptance of a relatively small payment of \$2,000, however, support a finding that the parties intended to convey only a limited license. *See Effects Associates, Inc. v. Cohen* (\$78,000 indicative of transfer). The court held that a material fact still remained as to the scope of the granted license.

Here, there is a significant question as to the scope of a license for Blinky's use. On the one hand, he received \$48,000 for his work, but Harris can effectively counter that the amount was for his work as lead of the marketing campaign, and as indicated by custom in the practice. He can show the intent that there was no mean to use Blinky in all matters of advertisement. Also, as indicated by the numerous e-mails, marketing agreement, and notes, Harris intended to remain as head of marketing, and without his involvement, he did not consent to the use of Blinky without his input. Therefore, though a close question, CBL exceeded its scope of the license by letting Harris go and continuing to use the work without his consent and/or input.

02-06 MPT Example 2

Moscovitz & Perwin
One Polland Place
Centralia, Franklin 33204

Memorandum

To: Jean Perwin
From: Applicant
Date: February 21, 2006
Re: Harris v. CBL

Ms. Perwin, in response to your questions regarding Harris v. CBL, I have the following information and conclusions.

1. Steve Harris does own the Blinky copyright.
2. Steve Harris did grant CBL permission, via an implied non-exclusive license to use the 'Blinky' character.
3. CBL's use of Blinky does go beyond the scope of the implied non-exclusive license.

Steve Harris does own the Blinky copyright. §201 of USC Title 17 defines ownership of copyright as (a) initial ownership. Copyright in a work protected under this title vests initially in the author or authors of this work. Here Steve Harris is the author of the work, so took the initial copyright properly. CBL may claim that they obtained copyright through calling "Blinky" a work made for hire. §101 of USC 17 defines a work for hire as 1) a work prepared by an employee within the scope of employment or 2) a work specially ordered or commissioned for use as a contribution to a collective work as part of a motion picture or other audiovisual work....if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. In this case, Steve Harris is not an employee of CBL, so (1) is not applicable. While Steve Harris did make the work specially for CBL for use as part of a collective work/audiovisual work, and he did sign an instrument stating that the work would be considered a work made for hire, the instrument was signed quite a while after the work was created. Per Wilkes v. Monterey Festival, "a written work made for hire agreement, signed after the creation of the material, ordinarily does not meet the statutory mandate". Wilkes goes on to state that such a writing may only meet the mandate "only if the writing confirms a prior agreement." In this case, there was no such prior agreement, and in fact Steve Harris' emails reflect that he expected to continue ownership of the right until CBL purchased it from him.

CBL may also claim ownership through transfer. Per USC 17 §101, a transfer of copyright ownership is "an assignment, mortgage, exclusive license, or other conveyance.....of a copyright or any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including non-exclusive license. In this case, no such conveyance occurred. The execution of transfers of copyright ownership, per USC 17 §204 (a) states a transfer "is not valid unless an instrument of conveyance, or a note of memorandum of transfer is in writing and signed by the owner of the rights conveyed". Steve Harris signed no such document, and CBL cannot produce such a document.

2. Steve Harris did grant a non-exclusive license for use of 'Blinky'.

CBL may claim that the fact that there was no written transfer of copyright ownership because

this agreement was an 'implied non-exclusive license to use the 'Blinky' character. As per Atkins v. Fischer, an implied non-exclusive license arises where 1) a person requests the creation of a work – here CBL did make that request by offering it contest – 2) creator makes and delivers the work to the person – here when Harris created and delivered 'Blinky' to CBL 3) the licensor-creator intends the licensee-requestor (CBL) to copy and distribute his work – here when Steve sent 'Blinky' understanding it was to be used in CBL's ad campaign.

3. CBL's use of Blinky does exceed the scope of the implied non-exclusive license.

The scope of rights in a non-exclusive license issue is determined objectively. The courts, per Atkins, will look at 1) the amount of consideration exchanged and the licensor's economic investment. Here CBL will claim the \$42,000 payment was for the Blinky copyright purchase, but it actually was for all the marketing services Steve Harris created, not for "Blinky" in particular. The court will also review the expectations expressed during negotiations and the parties conduct. Here, Steve Harris's email asking when CBL plans to purchase the copyright for Blinky demonstrates that he expected CBL to purchase the rights, but that he owned them until that time. The court will view if the agreement was task specific or if future involvement was assumed. In this case, Harris was told by CBL that he would provide 6 months of services. The courts will also look to see advisements indicating that licensor intended to retain control of the work. Here, Steve Harris's email indicates that he intends to retain control until CBL purchased the rights. These facts indicate that Steve Harris did give non-exclusive license to CBL, and intended to retain control of 'Blinky' until someone purchased the rights. This means CBL's use exceeds the scope of the license.

Ultimately, based on my review of statute and case law, I feel that Steve Harris does indeed own the Blinky copyright, he did grant CBL license to use it via an implied non-exclusive license, and CBL has exceeded the scope of that license in its continuing use of the 'Blinky' character.

02-06 MPT Example 3

MEMORANDUM

I. Ownership of the Blinky Copyright

Section 201 of the U.S.C. provides that copyright in a protected work vests initially in the author of the work. Although evidence of a copyright supports a claim of ownership, such rights are not determinative. The author of work in the case of a work made for hire is the employer or person for whom the work was prepared and owns all the rights thereto absent an express contrary agreement. 201. Thus, Harris owns the copyright unless it is a work made for hire or he transferred his rights pursuant to an implied license.

A work made for hire is defined in Section 101 of the Code as either (1) a work prepared by an employee within the scope of his or her employment; or (2) a work specially ordered or commissioned for use as a contribution to a collective work, as part of a motion picture or other audiovisual work,.....if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.

A. Employee v. Independent Contractor.

As Harris generally is a freelance graphic artist and not an employee, such that the work must fall within Section 101(2) to constitute a "work made for hire." He was, however, hired for 6 months, paid 7,0000 monthly. As it is entitled a services agreement, and does not preclude independent work, for purposes of this analysis, we will assume he was not an employee, at least originally.

B. Blinky as a "Work made for Hire".

Application to Blinky.

A character created for use in a television commercial constitutes "part of a motion picture or other audiovisual work," within the meaning of Section 101(2). *Wilkes v. Monterey Festival*. Harris created Blinky to be used in animated Internet advertisements. As the facts state the work constitutes audiovisual work, and the similarity in purpose between a television commercial and internet advertisement (marketing/advertising), Blinky is likely subject to the work made for hire doctrine despite the different medium, provided the writing requirement is satisfied.

Execution of the "Work Made for Hire" Agreement

Section 101(2) provides that the parties must expressly agree in a signed, written agreement, that the work shall be considered a work made for hire. Generally, an agreement signed after the creation of the copyrighted material does not satisfy the statutory requirement. *See Wilkes*. However, the writing requirement may be nevertheless be satisfied when a writing, signed by both parties after the work is created, when the writing confirms a prior explicit or implicit agreement which was made before the copyrighted material was created. *Wilkes*. Copyright notice is not dispositive on determining ownership of the work. *Wilkes*.

In *Wilkes*, the court found that when a graphic artist responded to an invitation to submit works which contained a statement that the works submitted were "works for hire," he implicitly acknowledged that his submission, if selected, would be a work made for hire. The court held the signature and return on a subsequent letter agreement reiterating that term was sufficient to satisfy the writing requirement.

Here, Harris similarly responded to an invitation to submit the animated character. However, a critical distinction is that the E-mail file is silent regarding classification of the work as a work for hire. There is no indication of any agreement, which could be subsequently confirmed in writing, either implicitly or explicitly. In fact, one email specifically provides that there were no terms or special requirements for the project. The confirmation agreement 2 months later, well after creation of Blinky containing the term does not bring the agreement into compliance with

the writing required under the statute, despite its declaration that Harris acknowledge the work was a work made for hire. Therefore, Blinky is not a work for hire and CBL does not have the right to continue its use it under this provision.

C. Transfer of Ownership.

If Blinky is not deemed a work made for hire, CBL may nevertheless claim ownership alleging a transfer. Under Section 204, a transfer of copyright ownership is not valid unless an instrument of conveyance or note/memorandum of the transfer is in writing and signed by the owner of the rights conveyed or his/her duly authorized agent.

Here, the agreement Service Agreement may indicate a transfer of ownership, as it contains the term work for hire. However, inclusion of the term can be argued to evidence that there was no transfer of ownership, as the transfer of ownership and made for hire provisions are separate. Thus, as a matter of interpretation, the Agreement, though written and signed, does not constitute a transfer of ownership.

II. Assuming Harris Owns the Copyright, CBL is not authorized unless its actions are within the scope of an implied nonexclusive license.

(A) Granting Permission to use Blinky Through Implied Nonexclusive License.

An implied nonexclusive license arises where: (1) a person (licensee) requests the creation of a work, (2) the creator makes the work and delivers it to the licensee, and (3) the licensor-creator intends the licensee-requestor copy and distribute the work. *Atkins*.

Here, CBL requested creation of the work by requesting submissions for the character for use in the internet ads for its new product. Harris worked on the product in response to the invitation,

working for 3 weeks to create Blinky, after receiving the invitation. He then submitted it for consideration. Here, based on the email communications, it was known to Harris that the work was intended to be used for Internet Ads. Harris confirmatory email states the scope is well. Thus, to the extent used for internet advertisements, it appears the conduct is proper and there is a nonexclusive license. The question that arises is whether this license included the right to use Blinky in a multimedia campaign.

(B) CBL's Use of Blinky in its Multimedia Campaign is within the Scope of Implied Nonexclusive License.

Since the license does not transfer ownership, even if granted, Harris is entitled to bring suit if CBL's use exceeded the scope of the rights granted in the license. Determination of the scope granted is an objective fact-dependent inquiry, with relevant factors being: (1) the amount of consideration exchanged and/or licensor's economic investment in the product; (2) the expectations expressed during negotiations and the parties' subsequent conduct; (3) Whether the agreement was task-specific or if the future involvement of the licensor was assumed; (4) any advisements indicating that the licensor intended to retain control of the work; and (5) evidence of custom or practice that may clarify the terms of the license. *Atkins*.

1. Consideration. Consideration of a below-market fee amount is indicative of the transferring parties' intent to convey only a limited license. *Atkins*. Here, Harris was paid 7,000 per month for six months. Such an amount is much greater than the 2,000 in *Atkins*, thus likely to support a claim by CBL that they were paying for a license, the scope of which included its marketing campaign. However, because CBL terminated the agreement, even if a license existed, Harris was not adequately compensated as agreed.

2. Expectations and Conduct. The existence of a two-stage agreement was found evidence of an intent that the parties intended the product to be used for commercial marketing. *Atkins*. Here, the services agreement may be argued to be like a "second stage", and thus support evidence of

intent to use for the multimarketing campaign, as they clearly had reached the end of hte design phase. However, Harris may offer hte email records of his expectations of hte scope of his initial agreement, the absence of further references to other uses, and their reference to future employment as indicative of his intent to retain control of the product and expectatoin that it was for limited use at the time Blinky was created; and that any license, if any, was granted in the subsequent agreement;which was revoked when they cancelled the contract.

3. Future Involvement of the Licensor was Assumed. The CBI-Harris email file indicates that it would most likely hire the winner to perform substantial additional work, on an ongoing basis, in a marketing campaign that it intended to develop, depending on its products success. This factor supports an assertion that the initial submission was intended solely for the internet ads, with the subsequent employment opportunities for further use of the product.

Further inquiry will need to be made into whether Harris made any advisements of intent to retain control of the work and into the custom and practice in the industry. However, based on these facts, Harris will be able to claim that CBL's conduct exceeds teh scope of the license granted.